

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Financial Statements

December 31, 2004 and 2003

(With Independent Auditors' Report Thereon)



KPMG LLP
2001 M Street, NW
Washington, DC 20036

Independent Auditors' Report on Financial Statements

To the Board of Governors of the Federal Reserve System:

We have audited the accompanying balance sheets of the Board of Governors of the Federal Reserve System (the Board) as of December 31, 2004 and 2003, and the related statements of revenues and expenses and changes in cumulative results of operations, and cash flows for the years then ended. These financial statements are the responsibility of the Board's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Board's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Board at December 31, 2004 and 2003, and the results of its operations, and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our reports dated April 1, 2005, on our consideration of the Board's internal control over financial reporting and its compliance with certain provisions of laws, regulations, and contracts. The purpose of those reports is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. Those reports are an integral part of an audit conducted in accordance with *Government Auditing Standards*, and should be read in conjunction with this report in considering the results of our audit.

KPMG LLP

April 1, 2005

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

BALANCE SHEETS

	As of December 31,	
<u>ASSETS</u>	<u>2004</u>	<u>2003</u>
CURRENT ASSETS		
Cash	\$ 60,107,292	\$ 56,179,654
Accounts receivable	1,696,480	1,251,117
Prepaid expenses and other assets	4,015,067	2,614,354
Total current assets	65,818,839	60,045,125
NONCURRENT ASSETS		
Property and equipment, net (Note 2)	149,028,686	149,595,059
Collections (Note 1)		
Total noncurrent assets	149,028,686	149,595,059
Total assets	<u>\$ 214,847,525</u>	<u>\$ 209,640,184</u>
<u>LIABILITIES AND CUMULATIVE RESULTS OF OPERATIONS</u>		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	\$ 13,891,861	\$ 15,347,390
Accrued payroll and related taxes	4,552,039	5,056,647
Accrued annual leave	14,195,910	13,428,993
Capital lease payable (current portion)	250,794	206,590
Unearned revenues and other liabilities	467,664	390,698
Total current liabilities	33,358,268	34,430,318
LONG-TERM LIABILITIES		
Capital lease payable (non-current portion)	675,271	763,699
Accumulated retirement benefit obligation (Note 3)	594,169	595,601
Accumulated postretirement benefit obligation (Note 4)	5,789,566	5,322,053
Accumulated postemployment benefit obligation (Note 5)	5,308,565	4,949,892
Total long-term liabilities	12,367,571	11,631,245
Total liabilities	45,725,839	46,061,563
CUMULATIVE RESULTS OF OPERATIONS		
Working capital	32,711,365	25,821,397
Unfunded long-term liabilities	(11,692,300)	(10,867,546)
Net investment in property and equipment	148,102,621	148,624,770
Total cumulative results of operations	169,121,686	163,578,621
Total liabilities and cumulative results of operations	\$ 214,847,525	\$ 209,640,184

See accompanying notes to financial statements.

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

STATEMENTS OF REVENUES AND EXPENSES AND CHANGES IN CUMULATIVE RESULTS OF OPERATIONS

	For the years ended December 31,	
	2004	2003
BOARD OPERATING REVENUES		
Assessments levied on Federal Reserve Banks for Board operating expenses and capital expenditures	\$ 272,331,500	\$ 297,020,200
Other revenues (Note 6)	8,336,581	8,835,440
Total operating revenues	280,668,081	305,855,640
BOARD OPERATING EXPENSES		
Salaries	166,797,724	156,547,392
Retirement and insurance contributions	30,850,441	28,263,776
Contractual services and professional fees	24,835,904	17,501,035
Depreciation and net losses on disposals	12,445,708	12,194,612
Utilities	8,273,801	7,664,716
Travel	7,088,444	5,981,254
Software	6,302,695	5,910,128
Postage and supplies	6,116,355	8,175,120
Repairs and maintenance	3,954,263	4,029,441
Printing and binding	1,944,552	1,864,006
Other expenses (Note 6)	6,515,129	6,642,118
Total operating expenses	275,125,016	254,773,598
RESULTS OF OPERATIONS	5,543,065	51,082,042
ISSUANCE AND REDEMPTION OF FEDERAL RESERVE NOTES		
Assessments levied on Federal Reserve Banks for currency costs	503,784,304	508,144,248
Expenses for currency printing, issuance, retirement and shipping	503,784,304	508,144,248
CURRENCY ASSESSMENTS OVER (UNDER) EXPENSES	-	-
TOTAL RESULTS OF OPERATIONS	5,543,065	51,082,042
CUMULATIVE RESULTS OF OPERATIONS, Beginning of year	163,578,621	112,496,579
CUMULATIVE RESULTS OF OPERATIONS, End of year	\$ 169,121,686	\$ 163,578,621

See accompanying notes to financial statements.

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

STATEMENTS OF CASH FLOWS

	For the years ended December 31,	
	2004	2003
CASH FLOWS FROM OPERATING ACTIVITIES		
RESULTS OF OPERATIONS	\$ 5,543,065	\$ 51,082,042
Adjustments to reconcile results of operations to net cash provided by (used in) operating activities:		
Depreciation and net losses on disposals	12,445,708	12,194,612
Increase in assets:		
Accounts receivable, prepaid expenses and other assets	(1,846,076)	(2,192,814)
Increase (decrease) in liabilities:		
Accounts payable and accrued liabilities	(1,455,529)	3,897,291
Accrued payroll and related taxes	(504,608)	(3,046,063)
Accrued annual leave	766,917	1,555,466
Unearned revenues and other liabilities	76,966	(51,368)
Accumulated retirement benefit obligation	(1,432)	(18,507)
Accumulated postretirement benefit obligation	467,513	404,266
Accumulated postemployment benefit obligation	358,673	650,640
Net cash provided by operating activities	15,851,197	64,475,565
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from disposals	4,005	15,790
Capital expenditures	(11,715,861)	(16,809,964)
Net cash used in investing activities	(11,711,856)	(16,794,174)
CASH FLOWS FROM FINANCING ACTIVITIES		
Capital lease payments	(211,703)	(136,901)
Net cash used in financing activities	(211,703)	(136,901)
NET INCREASE IN CASH	3,927,638	47,544,490
CASH BALANCE, Beginning of year	56,179,654	8,635,164
CASH BALANCE, End of year	\$ 60,107,292	\$ 56,179,654
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Capital lease obligations incurred	\$ 190,538	\$ 1,024,491

See accompanying notes to financial statements.

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
NOTES TO FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003

(1) SIGNIFICANT ACCOUNTING POLICIES

Organization - The Federal Reserve System was established by Congress in 1913 and consists of the Board of Governors (Board), the Federal Open Market Committee, the twelve regional Federal Reserve banks, the Federal Advisory Council, and the private commercial banks that are members of the System. The Board, unlike the Reserve Banks, was established as a federal government agency and is supported by Washington staff numbering approximately 1,800, as it carries out its responsibilities in conjunction with other components of the Federal Reserve System.

The Board is required by the Federal Reserve Act to report its operations to the Speaker of the House of Representatives. The Act also requires the Board, each year, to order a financial audit of each Federal Reserve Bank and to publish each week a statement of the financial condition of each such Reserve Bank and a consolidated statement for all of the Reserve Banks. Accordingly, the Board believes that the best financial disclosure consistent with law is achieved by issuing separate financial statements for the Board and for the Reserve Banks. Therefore, the accompanying financial statements include only the operations and activities of the Board. Combined financial statements for the Federal Reserve Banks are included in the Board's annual report to the Speaker of the House of Representatives.

Basis of Accounting - The financial statements have been prepared on the accrual basis of accounting.

Revenues - Assessments for operating expenses and additions to property are based on expected cash needs. Amounts over or under assessed due to differences between actual and expected cash needs flow in to or out of "Cumulative Results of Operations" during the year.

Issuance and Redemption of Federal Reserve Notes - The Board incurs expenses and assesses the Federal Reserve Banks for currency printing, issuance, retirement and shipping of Federal Reserve Notes. These assessments and expenses are separately reported in the statements of revenues and expenses because they are not Board operating transactions.

Property and Equipment - The Board's property, buildings and equipment are stated at cost less accumulated depreciation. Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets, which range from 3 to 10 years for furniture and equipment and from 10 to 50 years for building equipment and structures. Upon the sale or other disposition of a depreciable asset, the cost and related accumulated depreciation are removed from the accounts and any gain or loss is recognized.

Collections - The Board has collections of works of art, historical treasures, and similar assets. These collections are maintained and held for public exhibition in furtherance of public service. Proceeds from any sales of collections are used to acquire other items for collections. As permitted by FAS 116, the cost of collections purchased by the Board is charged to expense in the year purchased and donated collection items are not recorded. The value of the Board's collections has not been determined.

Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Reclassifications - Certain 2003 amounts have been reclassified to conform with the 2004 presentation.

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
NOTES TO FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003

(2) PROPERTY AND EQUIPMENT

The following is a summary of the components of the Board's property and equipment, at cost, net of accumulated depreciation.

	As of December 31,	
	2004	2003
Land	\$ 18,640,314	\$ 18,640,314
Buildings and improvements	132,891,551	129,161,957
Furniture and equipment	44,450,522	43,890,215
Software	12,207,125	11,425,411
Construction in process	4,380,259	-
	<u>212,569,771</u>	<u>203,117,897</u>
Less accumulated depreciation	(63,541,085)	(53,522,838)
Property and equipment, net	<u>\$ 149,028,686</u>	<u>\$ 149,595,059</u>

Furniture and equipment includes \$1,230,000 and \$1,156,000 for capitalized leases as of December 31, 2004 and 2003, respectively. Accumulated depreciation includes \$356,000 and \$195,000 for capitalized leases as of December 31, 2004 and 2003, respectively. The Board paid interest related to these capital leases in the amount of \$104,000 and \$76,000 for 2004 and 2003, respectively.

The future minimum lease payments required under the capital leases and the present value of the net minimum lease payments as of December 31, 2004, are as follows:

	Year Ending December 31	Amount
	2005	\$ 427,659
	2006	416,274
	2007	416,274
	2008	138,279
Total minimum lease payments		<u>1,398,486</u>
Less: Amount representing maintenance included in total amounts above		<u>(301,512)</u>
Net minimum lease payments		1,096,974
Less: Amount representing interest		<u>(170,909)</u>
Present value of net minimum lease payments		926,065
Less: Current maturities of capital lease obligations		<u>(250,794)</u>
Long-term capital lease obligations		<u>\$ 675,271</u>

Construction in process includes costs incurred in 2004 for two long-term security projects. The first, the Electronic Security System, has an estimated cost of \$5.1 million and expected completion in 2005. The second, the Security Perimeter Barrier Project, has an estimated cost of \$11.8 million and expected completion in 2006.

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
NOTES TO FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003

(3) RETIREMENT BENEFITS

Substantially all of the Board's employees participate in the Retirement Plan for Employees of the Federal Reserve System (System Plan). The System Plan is a multi-employer plan which covers employees of the Federal Reserve Banks, the Board, and the Plan Administrative Office.

Employees of the Board who became employed prior to 1984 are covered by a contributory defined benefits program under the System Plan. Employees of the Board who became employed after 1983 are covered by a non-contributory defined benefits program under the System Plan. Contributions to the System Plan are actuarially determined and funded by participating employers at amounts prescribed by the System Plan's administrator. Based on actuarial calculations, it was determined that employer funding contributions were not required for the years 2004 and 2003, and the Board was not assessed a contribution for these years. Excess Plan assets are expected to continue to fund future years' contributions. Because the plan is part of a multi-employer plan, information as to vested and nonvested benefits, as well as plan assets, as it relates solely to the Board, is not readily available.

A relatively small number of Board employees participate in the Civil Service Retirement System (CSRS) or the Federal Employees' Retirement System (FERS). The Board matches employee contributions to these plans. These defined benefit plans are administered by the Office of Personnel Management. The Board's contributions to these plans totaled \$330,000 and \$312,000 in 2004 and 2003, respectively. The Board has no liability for future payments to retirees under these programs, and it is not accountable for the assets of the plans.

Employees of the Board may also participate in the Federal Reserve System's Thrift Plan. Under the Thrift Plan, members may contribute up to a fixed percentage of their salary. Board contributions are based upon a fixed percentage of each member's basic contribution and were \$8,314,000 and \$7,692,000 in 2004 and 2003, respectively.

Effective January 1, 1996, Board employees covered under the System Plan are also covered under a Benefits Equalization Plan (BEP). Benefits paid under the BEP are limited to those benefits that cannot be paid from the System Plan due to limitations imposed by Sections 401(a)(17), 415(b) and 415(e) of the Internal Revenue Code of 1986. Pension costs attributed to the System Plan reduce the pension costs of the BEP. Activity for the BEP for 2004 and 2003 is summarized in the following table:

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
NOTES TO FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003

	2004	2003
<u>Change in Projected Benefit Obligation</u>		
Benefit obligation at beginning of year	\$ 74,956	\$ 12,866
Service cost	23,239	13,689
Interest cost	6,170	3,412
Plan participants' contributions	-	-
Plan amendments	-	-
Actuarial (gain)/loss	36,588	44,989
Benefits paid	-	-
Benefit obligation at end of year	<u>\$ 140,953</u>	<u>\$ 74,956</u>
<u>Change in Plan Assets</u>		
Fair value of plan assets at beginning of year	\$ -	\$ -
Actual return on plan assets	-	-
Employer contributions	-	-
Plan participants' contributions	-	-
Benefits paid	-	-
Fair value of plan assets at end of year	<u>\$ -</u>	<u>\$ -</u>
<u>Reconciliation of Funded Status at End of Year</u>		
Funded status	\$ (140,953)	\$ (74,956)
Unrecognized net actuarial (gain)/loss	(177,773)	(231,189)
Unrecognized prior service cost	(817,732)	(934,339)
Unrecognized net transition obligation	542,289	644,883
Retirement benefit liability	<u>\$ (594,169)</u>	<u>\$ (595,601)</u>
<u>Information for pension plans with an accumulated benefit obligation in excess of plan asset:</u>		
Projected benefit obligation	\$ 140,953	\$ 74,956
Accumulated benefit obligation	\$ 33	\$ 28
<u>Weighted-average assumptions used to determine benefit obligation as of December 31</u>		
Discount rate	5.75%	6.25%
Rate of compensation increase	4.25%	4.00%
<u>Components of Net Periodic Benefit Cost</u>		
Service cost - benefits earned during the period	\$ 23,239	\$ 13,689
Interest cost on projected benefit obligation	6,170	3,412
Expected return on plan assets	-	-
Amortization of prior service cost	(116,607)	(116,607)
Amortization of (gains)/losses	(16,828)	(21,595)
Amortization of initial (asset)/obligation	102,594	102,594
Net periodic benefit cost (credit)	<u>\$ (1,432)</u>	<u>\$ (18,507)</u>
<u>Weighted-average assumptions used to determine net periodic benefit cost for years ended December 31</u>		
Discount rate	6.25%	6.75%
Rate of compensation increase	4.00%	4.25%

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
NOTES TO FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003

(4) POSTRETIREMENT BENEFITS

The Board provides certain life insurance programs for its active employees and retirees. Activity for 2004 and 2003 is summarized in the following table:

	2004	2003
<u>Change in Benefit Obligation</u>		
Benefit obligation at beginning of year	\$ 7,166,146	\$ 6,134,395
Service cost	203,229	170,636
Interest cost	443,043	414,319
Plan participants' contributions	-	-
Plan amendments	-	-
Actuarial (gain)/loss	845,851	673,998
Benefits paid	(253,717)	(227,202)
Benefit obligation at end of year	<u>\$ 8,404,552</u>	<u>\$ 7,166,146</u>
<u>Change in Plan Assets</u>		
Fair value of plan assets at beginning of year	\$ -	\$ -
Actual return on plan assets	-	-
Employer contribution	253,717	227,202
Plan participants' contributions	-	-
Benefits paid	(253,717)	(227,202)
Fair value of plan assets at end of year	<u>\$ -</u>	<u>\$ -</u>
<u>Reconciliation of Funded Status at End of Year</u>		
Funded status	\$ (8,404,551)	\$ (7,166,146)
Unrecognized net actuarial (gain)/loss	2,537,211	1,760,246
Unrecognized prior service cost	77,774	83,847
Prepaid/(accrued) postretirement benefit liability	<u>\$ (5,789,566)</u>	<u>\$ (5,322,053)</u>
<u>Components of Net Periodic Cost for Year</u>		
Service cost	\$ 203,229	\$ 170,636
Interest cost	443,043	414,319
Amortization of prior service cost	6,073	6,073
Amortization of (gains)/losses	68,885	40,440
Total net periodic cost	<u>\$ 721,230</u>	<u>\$ 631,468</u>

The liability and costs for the postretirement benefit plan were determined using discount rates of 5.75 percent and 6.25 percent as of December 31, 2004 and 2003, respectively. Unrecognized losses of \$2,537,211 and \$1,760,246 as of December 31, 2004 and 2003, respectively, result from changes in the discount rate used to measure the liabilities. Under Statement of Financial Accounting Standards No.106, *Employers' Accounting for Postretirement Benefits Other Than Pensions*, the Board may have to record some of these unrecognized losses in operations in future years. The assumed salary trend rate for measuring the increase in postretirement benefits related to life insurance was an average of 4.25 percent.

The above accumulated postretirement benefit obligation is related to the Board sponsored life insurance programs. The Board has no liability for future payments to employees who continue coverage under the federally sponsored life and health programs upon retiring. Contributions for active employees participating in federally sponsored health programs totaled \$8,223,000 and \$7,188,000 in 2004 and 2003, respectively.

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
NOTES TO FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003

(5) POSTEMPLOYMENT BENEFIT PLAN

The Board provides certain postemployment benefits to eligible former or inactive employees and their dependents during the period subsequent to employment but prior to retirement. Costs were projected using the same discount rates as were used for projecting postretirement costs. The accrued postemployment benefit costs recognized by the Board for the years ended December 31, 2004 and 2003, were \$733,000 and \$957,000, respectively.

(6) OTHER REVENUES AND OTHER EXPENSES

The following are summaries of the components of Other Revenues and Other Expenses.

	As of December 31,	
	2004	2003
Other Revenues		
Data processing revenue	\$ 3,984,610	\$ 4,639,084
Rent	2,332,089	2,029,514
Subscription revenue	787,053	799,356
Reimbursable services to other agencies	673,730	588,894
National Information Center	15,422	24,422
Board sponsored conferences	-	275,110
Miscellaneous	543,677	479,060
Total other revenues	<u>\$ 8,336,581</u>	<u>\$ 8,835,440</u>
Other Expenses		
Tuition, registration and membership fees	\$ 2,048,610	\$ 1,615,074
Contingency operations	782,052	704,699
Public transportation subsidy	800,724	732,124
Subsidies and contributions	635,336	627,854
Administrative law judges	492,155	307,173
Meals and representation	377,963	534,618
Equipment and facilities rental	307,999	439,751
Security investigations	286,711	473,659
Former employee related payments	205,627	507,082
Miscellaneous	577,952	700,084
Total other expenses	<u>\$ 6,515,129</u>	<u>\$ 6,642,118</u>

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
NOTES TO FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003

(7) COMMITMENTS

The Board has entered into several operating leases to secure office, training and warehouse space for remaining periods ranging from one to four years. In addition, the Board has entered into an agreement with the Federal Deposit Insurance Corporation and the Office of the Comptroller of the Currency, through the Federal Financial Institutions Examination Council (the "Council") to fund a portion of enhancements for a central data repository project through 2013.

Minimum annual payments under the operating leases having an initial or remaining noncancelable lease term in excess of one year at December 31, 2004, are as follows:

2005	\$	163,363
2006		71,991
After 2006		-
	\$	<u>235,354</u>

Rental expenses under the operating leases were \$156,000 in 2004 and 2003.

(8) FEDERAL FINANCIAL INSTITUTIONS EXAMINATION COUNCIL

The Board is one of the five member agencies of the Council, and currently performs certain management functions for the Council. The five agencies which are represented on the Council are the Board, Federal Deposit Insurance Corporation, National Credit Union Administration, Office of the Comptroller of the Currency, and Office of Thrift Supervision. The Board's financial statements do not include financial data for the Council. Activity related to the Board and Council for 2004 and 2003 is summarized in the following table:

	2004	2003
Board paid to the Council:		
Assessments for operating expenses of the Council	\$ 112,020	\$ 105,920
Central Data Repository	326,640	630,000
Uniform Bank Performance Report	199,230	201,666
Total Board paid to the Council	<u>\$ 637,890</u>	<u>\$ 937,586</u>
Council paid to the Board:		
Data processing related services	\$ 3,360,055	\$ 3,485,701
Administrative services	133,500	72,250
Total Council paid to the Board	<u>\$ 3,493,555</u>	<u>\$ 3,557,951</u>

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
NOTES TO FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003

(9) FEDERAL RESERVE BANKS

The Board performs certain functions for the Reserve Banks in conjunction with its responsibilities for the Federal Reserve System, and the Federal Reserve Banks provide certain administrative functions for the Board. Activity related to the Board and Reserve Banks for 2004 and 2003 is summarized in the following table:

	<u>2004</u>	<u>2003</u>
Board paid to the Reserve Banks:		
Assessments for employee benefits	\$ 2,151,078	\$ 2,137,781
Data processing and communication	1,920,996	1,963,247
Contingency site	1,481,452	704,699
Total Board paid to the Reserve Banks	<u>\$ 5,553,526</u>	<u>\$ 4,805,727</u>
Reserve Banks paid to the Board:		
Assessments for currency costs	\$ 503,784,304	\$ 508,144,248
Assessments for operating expenses of the Board	272,331,500	297,020,200
Data processing	686,312	1,484,015
Total Reserve Banks paid to the Board	<u>\$ 776,802,116</u>	<u>\$ 806,648,463</u>



KPMG LLP
2001 M Street, NW
Washington, DC 20036

Independent Auditors' Report on Internal Control over Financial Reporting

To the Board of Governors of the Federal Reserve System:

We have audited the balance sheets of the Board of Governors of the Federal Reserve System (the Board) as of December 31, 2004 and 2003, and the related statements of revenues and expenses and changes in cumulative results of operations, and cash flows for the years then ended, and have issued our report thereon dated April 1, 2005. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

In planning and performing our fiscal year 2004 audit, we considered the Board's internal control over financial reporting by obtaining an understanding of the Board's internal control, determining whether these internal controls had been placed in operation, assessing control risk, and performing tests of controls in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements. We limited our internal control testing to those controls necessary to achieve the objectives described in *Government Auditing Standards*. The objective of our audit was not to provide assurance on the Board's internal control over financial reporting. Consequently, we do not provide an opinion thereon.

Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses under standards issued by the American Institute of Certified Public Accountants. Material weaknesses are conditions in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements, in amounts that would be material in relation to the financial statements being audited, may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Because of inherent limitations in any internal control, misstatements due to error or fraud may occur and not be detected. However, we noted no matters involving the internal control and its operation that we consider to be material weaknesses as defined above.

We noted other matters involving internal control and its operation that we have reported to the management of the Board in a separate letter dated April 1, 2005.

This report is intended solely for the information and use of the members of the Board and its management, the Office of the Inspector General, and Congress and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

April 1, 2005



KPMG LLP
2001 M Street, NW
Washington, DC 20036

Independent Auditors' Report on Compliance and Other Matters

To the Board of Governors of the Federal Reserve System:

We have audited the balance sheets of the Board of Governors of the Federal Reserve System (the Board) as of December 31, 2004 and 2003, and the related statements of revenues and expenses and changes in cumulative results of operations, and cash flows for the years then ended, and have issued our report thereon dated April 1, 2005. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

The management of the Board is responsible for complying with laws, regulations, and contracts applicable to the Board. As part of obtaining reasonable assurance about whether the Board's 2004 financial statements are free of material misstatement, we performed tests of the Board's compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. We limited our tests of compliance to the provisions described in the preceding sentence, and we did not test compliance with all laws, regulations, and contracts applicable to the Board. However, providing an opinion on compliance with laws, regulations, and contracts was not an objective of our audit and, accordingly, we do not express such an opinion.

The results of our tests of compliance described in the preceding paragraph of this report disclosed no instances of noncompliance or other matters that are required to be reported herein under *Government Auditing Standards*.

This report is intended solely for the information and use of the members of the Board and its management, the Office of the Inspector General, and Congress and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

April 1, 2005